Office of the Assistant Secretary of the Navy
(Financial Management and Comptroller)

Department of the Navy Financial Improvement Plan (DON FIP)

Planning for Assessments & Audits

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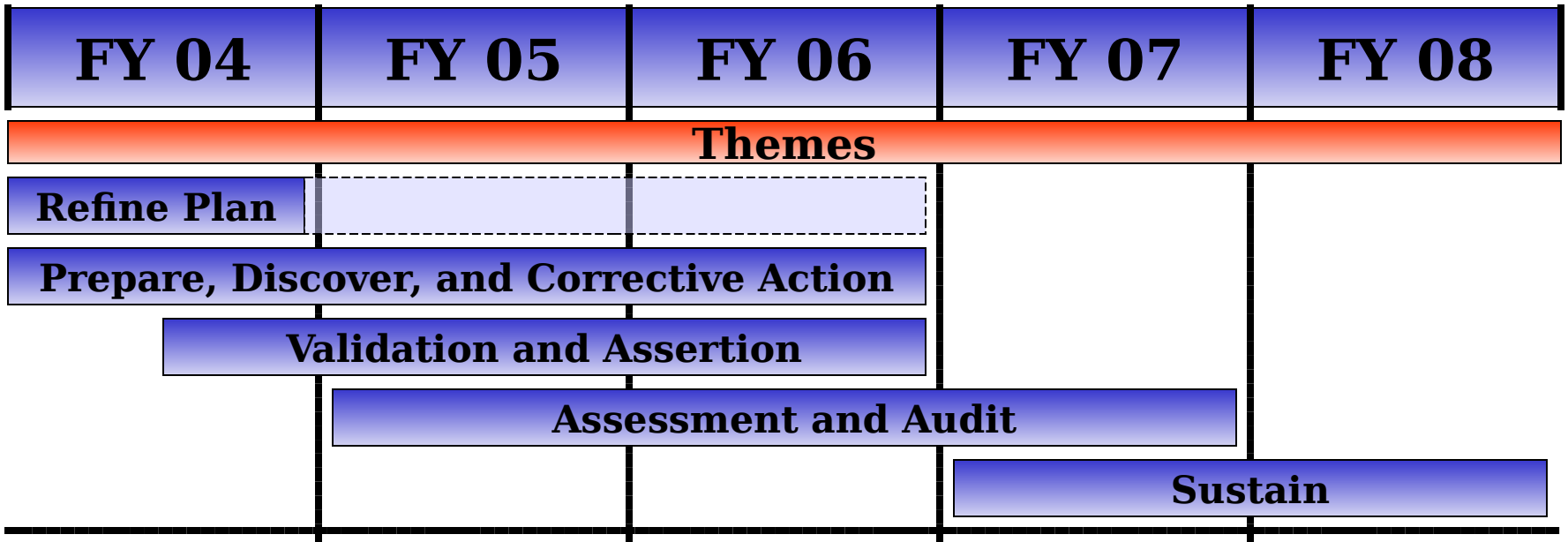
Agenda

* DON Financial Improvement Plan
  - Strategic Timeline
  - Clean Opinion Process
* DON Validation Process
  - Preparation, Document, Assess Internal Controls, Validate
  - Assertion Guidance and Templates
  - Pilot Efforts
* DON FIP Approach
  - Horizontal vs. Vertical Approach
  - Database
* Summary

DON FIP Strategic Timeline



Focus Areas

- Command Level Statements (GF)
- Validation Method and Procedures
- Identify Measures
- Stand up the Audit

- USMC
- Selected DON Commands
- NWCF
- Balance Sheet
- Major Systems Audits
- Validate

- Improving Processes
- Other Statements
- Military Equipment
- Inventory
- Completing Validations

- Support Audit Process

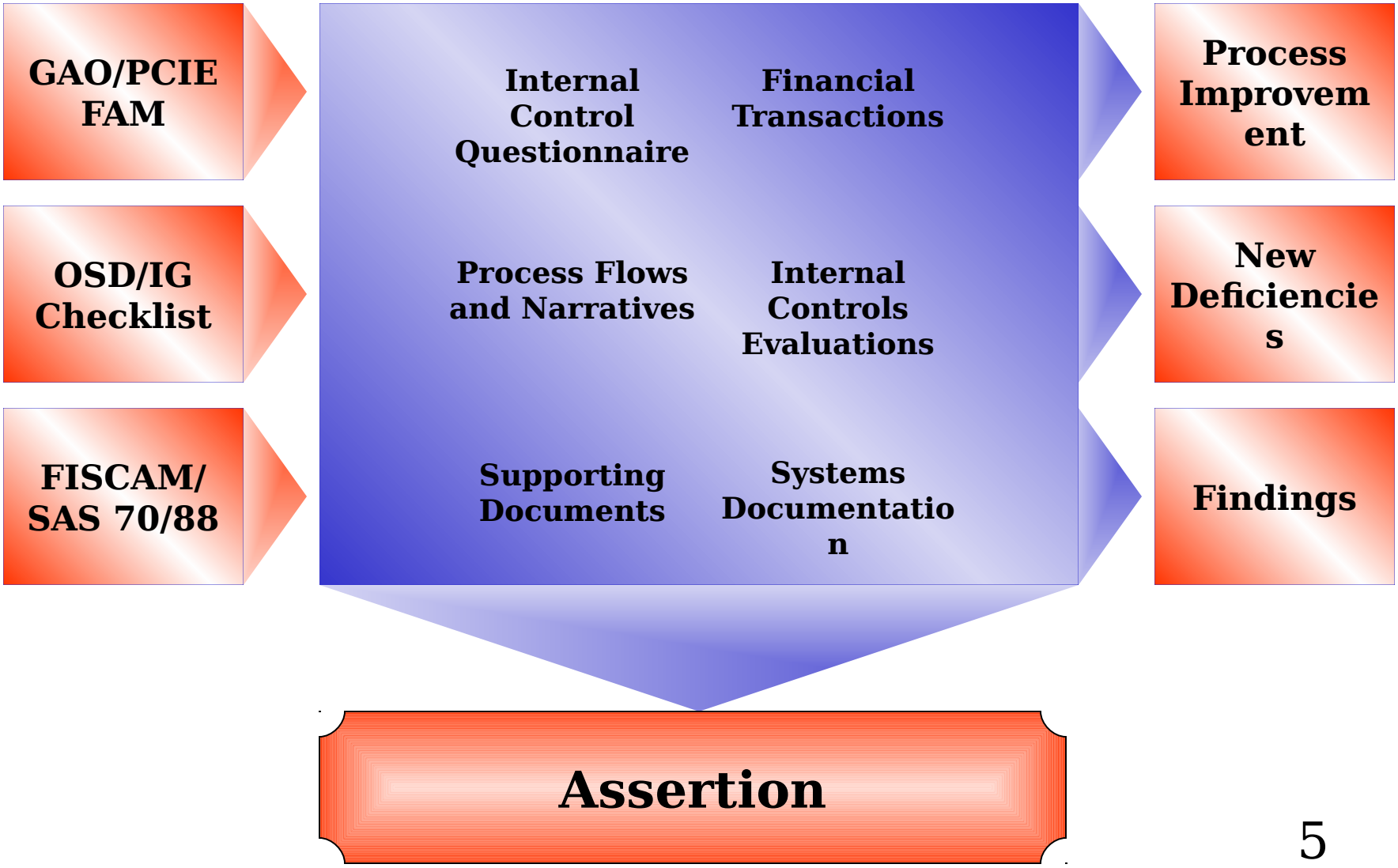
- Maintain Improved Processes and continually assess internal controls

Clean Opinion Process

Discovery and Correction	Validation	Assertion	Assessment	Audit
• Develop improvement plans • Implement corrective actions • Establish audit committee • Develop systems strategy • Prepare business cases for systems changes • Prepare and review full set of financial statements each quarter	• Management requests validation of financial information • Obtain comment from IG and notify Review and Prioritization Subcommittee (RPS) • Commands document processes	• Complete assertion package and return to IG • Agreement with Engagement letter and management representative letter • RPS and Funding Subcommittee review, prioritization recommendation to ESC • ESC approval for assessment/audit required before IG contract funds obligated.	• OIG/Oversight • DoDIG in-house or oversight of IPAs. • If pass, schedule the audit through ESC approval process	• DoDIG performs the audit of DON financial statements

DON Validation Process

Investments, Other Liabilities, Environmental Liabilities



DON Validation Methodology

Prepare	Document	Assess	Validate	Assert
• Plan and Scope • Define Materiality • Compile and review recent audit reports • Compile applicable SGL/USSGL accounts and definitions • Develop systems strategy • Review rules and regulations • Compile DDRS drill downs • Develop internal control questionnaires • Develop guidance • Identify POCs	• Document major business events • Map process flows • Map organization structure • Complete internal control questionnaires • Define and map systems • Gather systems certifications (FISCAM, SAS 70/88) • Conduct interviews • Gather supporting documentation	• Identify risk and control measures • Document control procedures • Evaluate control procedures (process and systems) • Perform substantive testing	• Confirm and document material deficiencies are resolved • Document the overall effectiveness of the control environment, mitigate ineffective controls	• Inform IG/ESG of the DON's intent to Assert • Complete the DoD IG Checklist • Compile and issue assertion package

Horizontal and Vertical Approach

* Horizontal versus Vertical Approach

- *Modular approach building towards larger victories*
- *The obtainment of the DON "clean" opinion can be viewed as the summation of its "clean" parts*

Line Item	Command A	Command B	Command C	USMC		Department of the Navy
FBWT	✓	✓	✓	✓	=	RFA*
A/R	✓			✓	=	
PP&E	✓	✓	N/A	✓	=	
A/P	✓	✓	✓	✓	=	RFA
Liabilities	✓	N/A		✓	=	
=						
DON Financials	RFA*			RFA	=	

* RFA = Ready for Audit

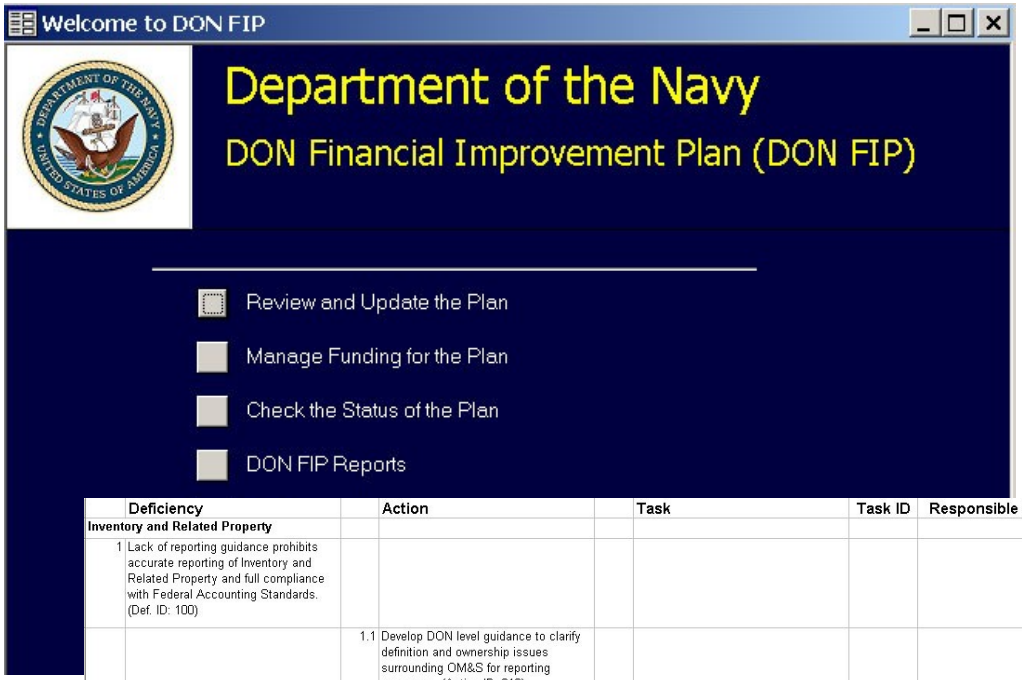
Validation Readiness Matrix

Subset of Balance Sheet

	2003 Value	COMMANDS									
LINE ITEMS		AAUSN	BUMED	BUPERS	CNET	CNO	DFAS-CL	DFAS-KC	FMO	HQMC	LAN
Fund Balance with Treasury											
1.A Appropriated Funds	$ 76,290,090	9/30/2005	6/30/2005	8/31/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/3
1.B Revolving Funds	$ 1,779,963	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/3
1.C Trust Funds	$ 18,877	9/30/2005	9/30/2005	8/31/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/3
1.D Other Fund Types	$ 325,948	9/30/2005	6/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/3
1.E Total Fund Balances	$ 78,414,878										
2.A Fund Balance per Treasury	$ 78,414,878										
2.B Fund Balance per Agency	$ 78,414,878										
2.C Reconciling Amount	$ -										
Investments											
1.A Marketable	$ -										
1.B Non-Marketable, Par Value	$ -										
1.C Non-Marketable, Market-Based	$ 9,856	7/15/2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
1.D Subtotal	$ 9,856										
1.E Accrued Interest	$ 95	7/15/2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
1.F Total Intragovernmental Securities	$ 9,951										
Accounts Receivable											
1 Intra-governmental Receivables	$ 496,863	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/3
2 Non-Federal Receivables (Public)	$ 3,382,133	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/30/2005	9/3

27 Major Commands and Over 100 Financial Statement Lines and Sublines

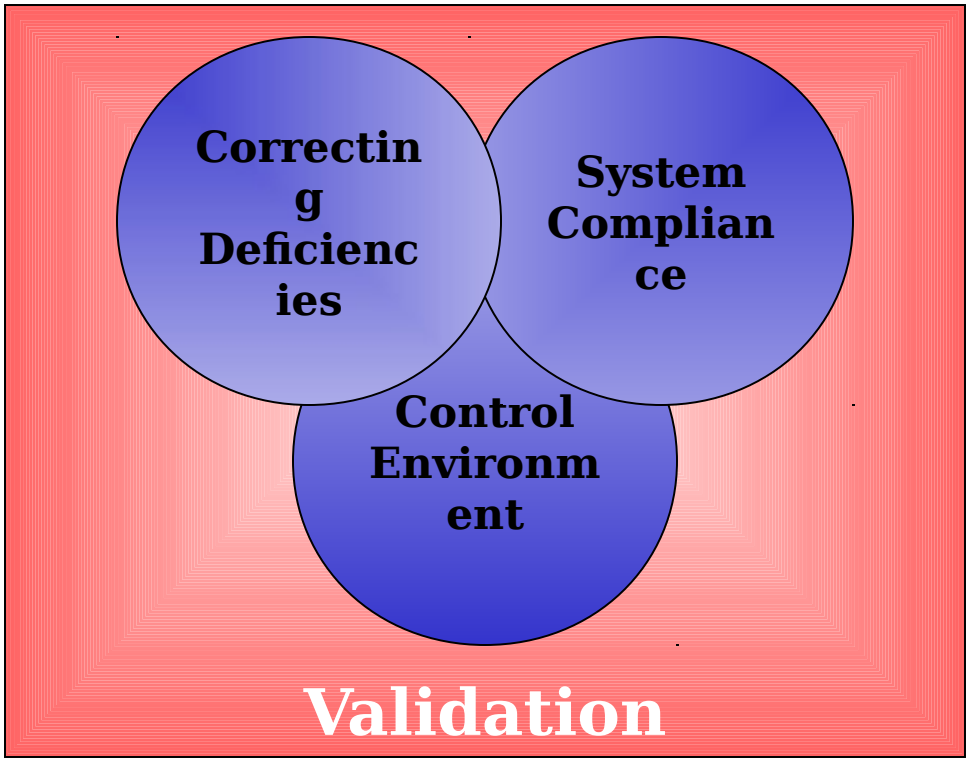
Database and Data Management


Welcome to DON FIP
Department of the Navy
DON Financial Improvement Plan (DON FIP)
Review and Update the Plan
Manage Funding for the Plan
Check the Status of the Plan
DON FIP Reports

	Deficiency		Action		Task	Task ID	Responsible Office
Inventory and Related Property							
1	Lack of reporting guidance prohibits accurate reporting of Inventory and Related Property and full compliance with Federal Accounting Standards. (Def. ID: 100)						
		1.1	Develop DON level guidance to clarify definition and ownership issues surrounding OM&S for reporting purposes. (Action ID: 212)				
				1.1-1	Consult with OUSD(AT&L) on current efforts to clarify OM&S definition for reporting purposes.	**932**	FMO, OUSD(AT&L)
				1.1-2	Develop and apply DON specific decision tree model to enable Commands to identify inventories that are subject to financial reporting. Decision tree should address Military Equipment, GFM, CAM, and End Use Material.	**933**	FMO
				1.1-3	Review and refine cognizant symbols or other reporting attributes as necessary to align with decision tree model.	**934**	NAVSUP, HQMC
		1.2	Interpet SFFAS 3 and define materiality for purposes of applying purchases versus consumption method of accounting. (Action ID: 213)				
				1.2-1	Conduct survey to determine the existence of inventories that may be subject to the consumption method.	**935**	FMO

- **Comprehensive data management for the DON FIP**
- **Allows for reporting and tracking of DON FIP information**
- **Ties efforts with validation**

DON Paradigm Shift



* Management takes ownership of its business vice relying on auditors to discover problems
* Validation centered plan has greater chance of success than deficiency focused plan
* Recognizes the interrelationships of the three major component pieces

Summary

* DON developing methodology and templates based on work in 3 line items
  - Investments
  - Other Liabilities
  - Environmental Liabilities
* Validation Process will require extensive effort to complete
  - Decentralized process will require commands to fully participate
  - Validation will be performed at the working level where the source data is maintained
  - DON Commands will become responsible for their own data, processes and controls
* DON Paradigm Shift
  - Validations will demonstrate auditability of DON financial statements
  - Validation centered plan has greater chance of success than deficiency focused plan
  - Validations prepare commands for audit and are a valuable management tool